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PENSIONS & December 11, 1989

Investment Age

THE NEWSPAPER OF CORPORATE AND INSTITUTIONAL INVESTING $6 AN ISSUE · $110 A YEAR

Chevron, Dayton Hudson set ESOPs

By Barry B. Burr

The virtual four-month cessation in the formation of employee stock ownership plans ended with a bang as Chevron Corp. and Dayton Hudson Corp. moved to set up two of the largest ESOPs ever soon after Congress adopted a measure keeping a favored part of the tax benefits for such plans.

Chevron, based in San Francisco, announced the creation of a $1 billion employee stock ownership plan, while Dayton Hudson, Minneapolis, expects to move ahead with a $400 million ESOP in the next few months.

Executives for the companies, echoing the sentiments expressed at many other corporations, said they had been waiting since summer for the outcome of legislation that threatened to remove most tax benefits for such plans. The resulting measure, although essentially taking away the interest income exclusion for lenders, preserved the more favored dividend deduction, encouraging their companies to proceed with the plans, the executives said.

Chevron and Dayton Hudson are a "harbinger of what's likely to come," said Corey Rosen, executive director for the National Center for Employee Ownership Inc., Oakland, Calif.

"We're still going to continue to see growth of ESOPs in public companies, but maybe at a lower rate (than the flurry of activity in the first half of this year), simply because a lot of the companies . . . have already done it."

The new interest exclusion rule, however, "will be a boost" for the UAL Corp.'s management and employee effort to buy the company, he suggested. If an ESOP acquires more than 50% of the United Airlines parent's stock, "there will be many more people chasing that loan because it will be one of the few available" to qualified lenders to use the interest exclusion.

Benefits experts are bracing for a new government fusillade on pension funds — page 2.

At Duff & Phelps Inc., Chicago, a major adviser in helping corporations create ESOPs, Chester A. Gougis, executive vice president-financial consulting, suggested employee motivation and anti-takeover reasons for forming ESOPs "still may be attractive, but ESOPs are less attractive along tax lines."

The measure — adopted by both the House and Senate Nov. 22, the final day of this year's session — essentially keeps intact the provision enabling corporations to deduct from their taxes dividends paid on stock acquired by a leveraged ESOP.

"That's clearly what's driving ESOPs," said Mr. Rosen.

But Congress eliminated for most leveraged ESOPs the provision allowing lenders to exclude half of the interest income on loans to the plans and, thus, enable corporations to borrow for less. Effective for transactions completed after Nov. 17, only ESOPs that hold more than 50% of a corporation's shares may use the interest exclusion. As a result, the provision excludes most corporations, whose ESOPs generally hold less than 15% of their sponsor's stock.

Allowing for a transition, the measure allows for lenders to still exclude half of the interest income if the ESOP was completed between July 10 and Nov. 17 and if the ESOP acquired 30% of a company's stock. Before the new legislation, there was no threshold

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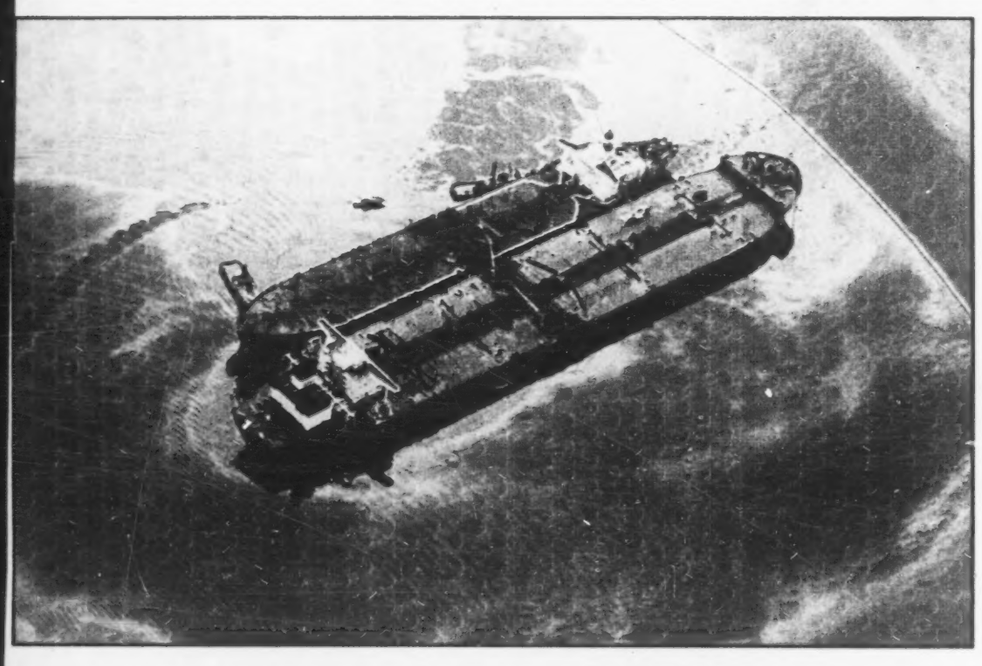

The Exxon Valdez oil spill spurred the creation of the Valdez Principles, a major issue in the coming proxy season.

Ecological issues swell proxy filings

By Trudy Ring

An explosion of interest in the environment and still-increasing focus on corporate activities in South Africa and Northern Ireland have combined to produce a record number of shareholder resolutions on social issues.

A total of 266 resolutions have been filed for consideration at corporate annual meetings in 1990, up from 202 in 1989, according to the Investor Responsibility Research Center, Washington.

The big reason for the almost 32% increase is environmental issues: There are now 40 resolutions on environmental subjects compared with al-

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GM boosts equity in AMI

$75 million infusion cuts size of junk-bond financing

By Steve Hemmerick

General Motors Corp.'s pension fund invested an additional $75 million in equity in the leveraged buy-out of American Medical International Inc., Beverly Hills, Calif., reducing the amount of junk bonds that had to be sold to finance the buy-out.

Last November, IMA Holdings, a private investment group of GKH Partners L.P., and First Boston Investments, a subsidiary of First Boston Corp., New York, acquired AMI in a $1.67 billion transaction valued at $3.09 billion in cash and debt assumption.

GKH investors that participated in the AMI buy-out include the Pritzker family of Chicago, several insurance companies and four major pension investors — the $5.2 billion Boeing Co. fund, Seattle; the $38 billion General Motors fund; the $9 billion Los Angeles County Employees' Retirement Association; and the $38 billion New York State & Local Retirement Systems.

Without GM's additional cash, GKH would have had to make a second capital call of $35 million on its limited partners to raise its equity investment in the deal to $185 million from $150 million to satisfy outside lenders, sources said. (The total equity in the deal is $285 million).

The GM pension fund, however, through its investment vehicle First Plaza Group Trust, agreed to purchase an additional $75 million of equity securities in IMA Holdings Inc., which made the acquisition.

That additional cash, with General Motors' earlier agreement to purchase a portion of $125 million in subordinated debt securities, reduced the amount of junk bonds that had to be sold to $475 million from $600 million. GM's financial assistance came at an opportune time because of the downturn in the junk bond market.

The high-yield securities were needed to refinance the bridge loan that was made to complete the acquisition of AMI, which reduced interest costs by an unspecified amount.

Since GM's equity purchase gives it a bigger share in the AMI purchase, one source commented, "I am wondering if General Motors now has controlling interest in the entire deal." GM officials would not comment on the AMI acquisition.

As a result of GM's equity purchase, First Boston's investment also was reduced, to $60 million from $100 million.

GKH Partners, Farmington, Conn., is an investment partnership organized to make long-term equity and equity-related debt investments. It began in 1988 and it had, before the AMI acquisition, more than $545 million in equity capital available.

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More bang for the buck
Futures and options lift returns of TAA account - 32

LATE NEWS

Lawsuit against Crestar dropped

WASHINGTON — Administrators for the U.S. News & World Report/The Atlantic Monthly 401(k) plan agreed to drop a lawsuit that charged Crestar Bank with defrauding the $20 million plan.

According to Alice N. Rogoff, a member of the plan's profit-sharing committee, attorneys for the plan only agreed to dismiss the suit after Crestar officials promised to pay the plan $2 million locked up in the bank's troubled real estate investment fund by Dec. 31.

Lucy D. Kennedy, a vice president for marketing with the Richmond, Va.-based bank, however, disputed that, saying that after agreement to drop the suit was reached, Crestar officials "independently" decided to advance money to the real estate fund to cash out investors.

When the money from the real estate is received from Crestar, the plan will place it with Fidelity Management Trust Co., Boston, which already runs $18 million of the plan's assets. Plan participants will determine how the assets are invested.

Utility moves into foreign arena

GREEN BAY, Wis. — The $250 million Wisconsin Public Service Corp. pension fund, making its initial move into international investments, has placed $10 million each in commingled funds run by Oechsle International Advisors, Boston, and WorldInvest Ltd., London.

The funds, equity with Oechsle and fixed income with WorldInvest, will be funded from cash and a paring of the fund's accounts with existing domestic managers, according to Dan Bittner, vice president and treasurer.

Mr. Bittner said the international commitments will be funded in about two months.

The fund has set a target allocation of 5% of assets in both foreign equity and fixed income.

Mr. Bittner said, however, there are no plans for further allocations at this time.

Becker, Burke Associates Inc., Chicago, assisted in the allocation study and search.

Puerto Rico teachers fund hires

SAN JUAN, Puerto Rico — The $650 million Puerto Rico Teachers Retirement Fund has hired Bear Stearns Asset Management, New York, to manage $140 million in a short-term fixed-income account, said Manuel Escobar, a consultant with Merrill Lynch, Pierce, Fenner & Smith Inc., San Juan.

Mr. Escobar said no managers were terminated and the money for the account came from reductions in the fund's other fixed-income accounts.

Wilshire Associates, Santa Monica, Calif., also was a consultant on the search.

AMR advisory unit adds business

FORT WORTH, Texas — AMR Investment Services Inc., the investment management subsidiary of AMR Corp., recently added to its assets under management.

Metro Airlines Inc., Dallas, hired AMR to manage the assets of its recently established, but as yet unfunded, 401(k) plan, according to Brian Miller, treasurer.

Mr. Miller said AMR also was hired to manage its surplus corporate cash, which varies from $1 million to $10 million, in the AMR short-term money market fund.

In addition, First Southern Trust Co., an independent Dallas trust firm specializing in small and midsize pension and employee benefit funds, recently placed an additional $18 million with the AMR unit, said Ron Simmons, vice president at First Southern Trust.

He said the most recent allocation to the AMR equity, fixed, balanced and money market funds brings the trust company's total allocation on behalf of its clients to $90 million.

The recent moves bring AMR Investment Service's total assets under management to almost $1 billion.

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Vol. 17, No. 26 — Pensions & Investment Age (ISSN 0273-5466) is published biweekly with a special edition in May by Crain Communications, Inc., 740 Rush St., Chicago, Ill. 60611-2590. Second class postage paid at Chicago, Ill. and at additional mailing offices. Postmaster: Send address changes to Pensions & Investment Age, Circulation Dept. 965 E. Jefferson, Detroit, Mich. 48207.

Scorecard questionnaires in the mail

Questionnaires are in the mail for *Pensions & Investment Age*'s annual Scorecard report on investment managers' new business. In order to be included in the Feb. 5 report, money managers must return the questionnaires by Dec. 31. If you have any questions, please contact Christine Philip, directory coordinator, at (312) 649-5217.

Getting a new perspective

Boeing, Florida executives hop to management firms

By Steve Hemmerick and Curtis Vosti

Two pension fund executives have resigned to join money management ventures.

Elizabeth Marcoux, former director of trust investments for Boeing Co., Seattle, now is a principal in Genesee Partners, Bellevue, Wash., which plans to offer a manager-of-managers trust that will invest pension assets in short selling and equity strategies.

David E. Kushner, manager of internal equities for the $18.7 billion Florida State Board of Administration, Tallahassee, resigned effective Jan. 1 to become a general partner in T-K Capital Management. He formed the firm with general partner Jack M. Tuhey, former executive vice president and marketing director of The Burridge Group Inc., Chicago.

Ms. Marcoux had been at Boeing 5½ years, where she managed day-to-day operations for more than $8.5 billion in company employee benefit assets. Terry Teague, an assistant treasurer, will succeed Ms. Marcoux effective Jan. 1.

Mr. Kushner spent 4¾ years at the Florida board, where he was responsible for a $443 million internally managed equity portfolio and a $3.5 billion index fund. His position is not expected to be filled until after the first of the year, according to Lan Janecek, director of equities at the Florida board.

Ms. Marcoux acknowledges she will have a challenging job: Few pension funds are willing to short stocks because of perceived added risk and unfamiliarity with the subject, but many more are showing interest in the strategy.

One of the firm's clients is Frank Russell Trust Co., Tacoma, Wash. Frank Russell Trust has an undisclosed amount invested in

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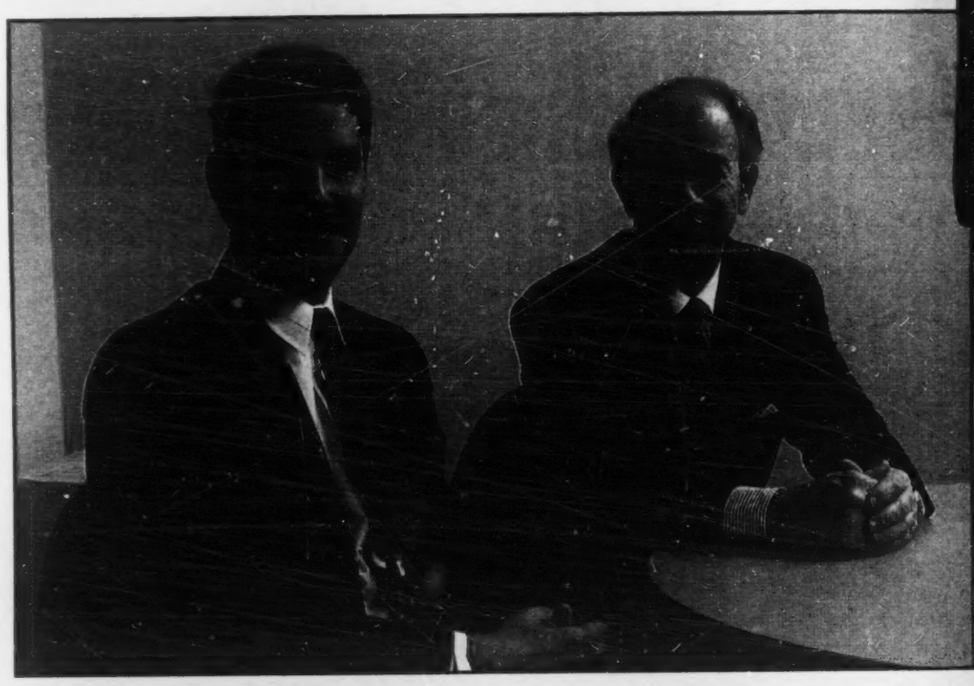

David E. Kushner, left, formerly with the Florida State Board, and Jack M. Tuhey are forming an equity management firm.

Solidarity leader Lech Walesa made a pitch for investment in Poland during his recent trip to the United States.

Michigan commits to Freedom Bonds

By Terry Williams

Polish "Freedom Bonds" do not yet exist, but the idea of getting in on the ground floor of Eastern European investment opportunities was enough to make a public pension fund from Michigan commit to buying $10 million of a proposed $100 million bond issue.

The Michigan Employees' Retirement Systems signed a letter of intent to invest $10 million of its $18 billion in assets in Polish Freedom Bonds, Michigan State Treasurer Robert Bowman announced Nov. 18.

The Illinois Board of Investment also is considering buying $25 million of the proposed issue with pension fund money, according to James Stapleton, chief fiscal officer for state Treasurer Jerry Cosentino.

But some economists and industry players have criticized and questioned the suitability of the bonds for pension funds.

"If you believe in free enterprise and capitalism, you'll believe in it at any age — 2 years old or 200 years old," said Mr. Bowman. "In this case, Poland's (democracy) is 3 months old."

Mr. Bowman said he does not expect to be able to buy the bonds until the spring, and there are a number of conditions Poland has to meet before the purchase is complete.

According to Jay Rising, Michigan chief deputy state treasurer, the purchase is contingent upon Poland getting commitments for the remaining $90 million in Freedom Bonds and the approval of a $500 million aid package from the United States.

The Polish government also will have to peg its currency, the zloty, to the dollar and balance its budget, said Mr. Bowman.

Another stipulation is that proceeds from the sale of the bonds can only be used for capital formation and capital equipment,

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Pension issues to resurface

By Joel Chernoff

WASHINGTON — If you thought this year's budget debates in Congress affecting pension and benefit plans were exciting, just wait until 1990.

Next year, Congress has to trim the budget deficit by some $64 billion to meet Gramm-Rudman-Hollings Act targets, which will require $30 billion to $50 billion in new revenue. This year, it only had to come up some $14 billion in new revenue.

"The administration will be scrambling, and I don't know what pieces they will pick up," said Elaine Church, a principal at Price, Waterhouse & Co., Washington.

Jim Kaitz, director-government relations at the Financial Executives Institute, Washington, anticipates "a lot of headaches" and "taking a lot of aspirin" in 1990.

This year, in a budget-reconciliation process that played like a soap opera on issues involving capital gains tax reduction and repeal of Medicare catastrophic coverage and non-discrimination rules for welfare plans, virtually all major rule changes involving pension plans were stripped out of the final bill.

Gone was a ban on employers' recapture of surplus pension assets. Gone, too, was a proposal to allow employers to transfer excess

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INTERNATIONAL

Value investing earns rewards for sponsors

Country selection, decline in dollar increase returns

By Margaret Price

Smart value investing, coupled with a modest decline in the dollar, were the common themes rewarding many of the top performers in Pensions & Investments' Performance Evaluation Report for the third quarter.

Successful funds also gained from strong market performances in certain countries, especially Hong Kong, which vaulted 23.6% in U.S. dollar terms during the period, according to the Morgan Stanley Capital International Europe Australia Far East Index.

The No. 1 finisher in the quarter, the $32 million International Equity Fund of Harris Trust and Savings Bank, Chicago, returned 17.22%. Among other factors, that fund benefited from successful value-oriented stock selections in Japan, where the fund had about a 60% weighting, and a 5.75% exposure to the French market. According to EAFE data, the Japanese market rose 12.2% and the French, about 17% in the quarter.

Worst performers for the quarter and year ended Sept. 30 were international/global bond funds. During the third quarter, factors ranging from fears of worsening inflation worldwide to attempts by some foreign governments to buttress their currency thwarted bond gains. After a good first half, U.S. bond performance generally lagged that of other markets — a factor which helped restrain advances in global fixed-income investments, noted Barry Gillman, managing director and chief executive officer of PCM International, Newark.

In the third quarter, PCM International's $80 million Global Yield fund ranked last of the 39 funds measured in the PIPER universe, with a 2.93% performance according to PIPER data.

PCM International's approximately $400 million Global Bond fund ranked second to last at 3.36%. That compares with 2.96% return in dollar terms of the Salomon Brothers World Government Bond Index.

Top-performing equity funds again bested major indexes during the quarter. While the EAFE index posted a 12.46% gain, the FT-Actuaries Europe and Pacific Index increased 12.6%. That put both indexes in the fifth decile of PIPER.

In comparison, both EAFE and the FT-A Europe and Pacific Index posted negative returns in the second quarter and were essentially flat in the first quarter. This year, these indexes' heavy exposure to the Japanese market have helped dampen or restrain

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Commingled international funds

3-month returns

	%
Harris Trust (Eq.), Ill.	17.2
Wellington Trust (Emerg. eq.)	17.1
Wilmington Trust (Eq.), Del.	16.5
Confederation Life (Eq.), Ga.	16.2
NCNB Texas (Eq.)	15.5
Bankers Trust (Eq.), N.Y.	15.5
Aetna Capital (Eq.), Conn.	14.2
Wellington Trust (Pacific Basin)	13.7
Putnam Cos., Mass.	13.1
PCM Int'l (Print eq.)	13.1
Travelers Cos. (Index), Conn.	13.1
Union Bank (Eq.), Calif.	12.9
Prudential (Foreign eq.), N.J.	12.8
MTrust (Eq.), Texas	12.8
Wellington Trust (Eq.)	12.7
Travelers Cos. (SA W), Conn.	12.6
FTA Europe & Pacific Index	**12.6**
Wells Fargo (Eq.), Calif.	12.6
MSCI EAFE Index	**12.5**
American Nat'l Chicago (Eq.)	12.4
Chase-CMB (EAFE index), N.Y.	12.4
State Street Bank (Index), Mass.	12.3
Bankers Trust (EAFE index), N.Y.	12.2
FTA World Index	**12.0**
The Principal (Eq.), Iowa	11.8
Citicorp Invst. (Eq.), N.Y.	11.7
MSCI World Index	**11.7**
WorldInvest (Eq.), N.Y.	11.2
IDS Trust (Eq.), Minn.	10.5
Assoc. Bank-Neenah (World)	10.5
CIGNA (Eq.), Con.	10.2
Boatmen's Trust (Coll. W), Mo.	10.1
Marine Midland (Eq.)	10.1
Chase-CMB (Eq.), N.Y.	9.4
WorldInvest (Fixed), N.Y.	6.9
Trust Co. of the West (Global)	5.7
PCM Int'l (Foreign bond), N.J.	5.5
Citicorp Invst. (Fixed), N.Y.	5.2
IAA Trust (CTF-I), Ill.	4.9
MTrust (Bond), Texas	4.3
Chase-CMB (Fixed), N.Y.	4.3
PCM Int'l (Global bond), N.J.	3.4
PCM Int'l (Global yield), N.J.	2.9

1-year returns

	%
Wellington Trust (Emerg. eq.)	38.0
Confederation Life (Eq.), Ga.	34.6
Wilmington Trust (Eq.), Del.	34.2
Bankers Trust (Eq.), N.Y.	32.4
NCNB Texas (Eq.)	31.6
Putnam Cos., Mass.	31.6
WorldInvest (Eq.), N.Y.	31.4

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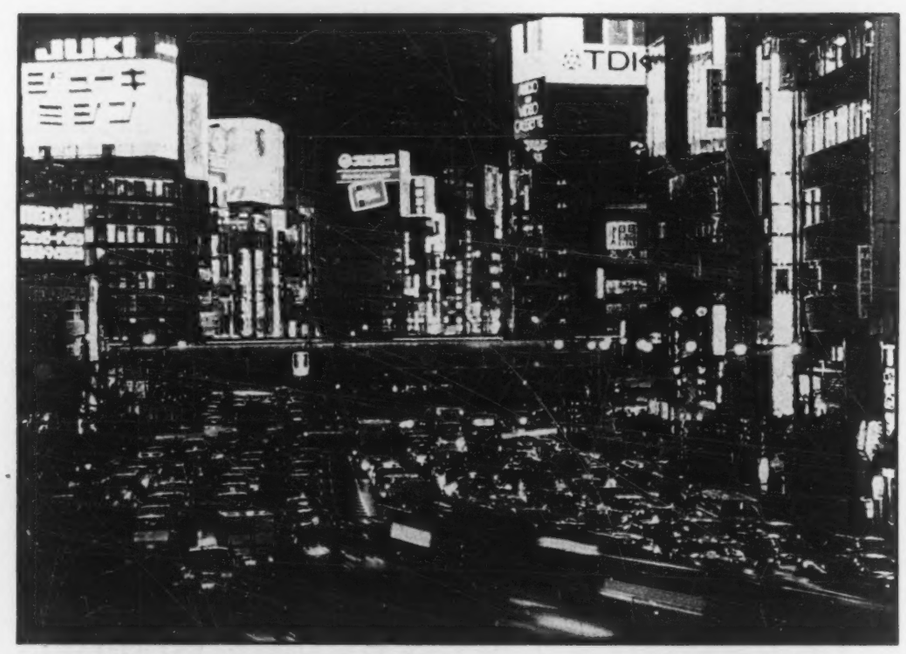

Pacific Telesis has targeted a large share of its increased international allocation to Japan-only investments.

PacTel increases foreign exposure

SAN FRANCISCO — The approximately $10 billion pension fund of Pacific Telesis Group, San Francisco, has raised its international allocation to 15% of total assets, shifting $495 million and hiring eight additional international equity money managers.

Among the new money managers are HD International, London, hired to manage $100 million of Europe-only investments; and Yamaichi International Capital Management, Tokyo, and Walter Scott & Partners, Edinburgh, both of which have been hired for $50 million each in Japan-only investments. Yamaichi is providing a Japan-only passive-plus tilt strategy.

The fund gave $20 million to Rowe Price-Fleming International Inc., London, and $10 million to Sit/Kim International Investment Associates Inc., New York, for investments in the Pacific Rim except Japan.

Wells Fargo Investment Advisors, San Francisco; State Street Bank and Trust, Boston; and Dimensional Fund Advisors, Santa Monica, Calif., were hired to passively manage a total of $165 million.

Wells Fargo and State Street will split $150 million while the remainder goes to Dimensional.

The fund also invested $100 million in protected equity notes in Japan in a deal put together through Bankers Trust Co.

According to Jerry Koch, the pension fund's director-investment administration, money for the new international investments came from domestic equity holdings, lowering that allocation to 50% from 55%. Mr. Koch said the fund terminated some generally "lower-performing" money managers and trimmed allocations to some other managers. He did not name the firms involved.

Pacific Telesis used Frank Russell Co., Tacoma, Wash., for research on international money managers.

Book entry urged for U.S.

Group of Thirty proposal would speed settlement time

By Curtis Vosti

NEW YORK — A U.S. committee studying ways to increase efficiencies in international security clearance and settlement systems has recommended U.S. financial markets move to book-entry procedures within two years.

The report was in response to a series of recommendations from the London-based Group of Thirty, consisting of financial leaders throughout the world. The nine recommendations, to harmonize clearance and settlement systems worldwide, were forwarded to country-specific committees so members could study how the recommendations could affect their home markets.

Only two of the nine recommendations were deemed to be a pressing need for the U.S. markets.

The U.S. committee said it believes acceptance of the book-entry system lays the groundwork for shorter settlement periods. The Group of Thirty has recommended the settlement period be three business days, as opposed to the five-day period common in the United States.

The other Group of Thirty recommendation that would affect the U.S. market is one requiring a more uniform use of same-day funds in settling trades. The U.S. committee plans to issue a report on that recommendation by the end of the year.

The committee called for an "extensive educational effort" by industry trade groups and securities firms to accustom investors to accept the electronic book-entry system and do without stock certificates.

The report noted institutions must be encouraged to speed the matching — or comparison — of trades to a same-day or trade-day-plus-one period from the current two-day norm.

Under the study group's plan, once book entry is in effect, existing stock certificates would be withdrawn from circulation when stocks are sold and logged as book entries.

The system would provide opportunities for cost reduction, which would be welcome in the wake of the current slump in securities industry trading activity and profitability, the report noted. Although the shift would necessitate changes in the back-office operations of securities firms, the report said these costs would likely be more than offset by the savings.

The report noted mutual funds and Treasury securities are already available only in book-entry form for retail customers, as are about 30% of all newly issued municipal bonds and some corporate bonds.

The U.S. study committee is headed by Lewis Bernard, managing director of Morgan Stanley & Co. Inc. Mr. Bernard appointed an advisory committee, representing a broader base of industry leaders in securities firms, banks and investment institutions, to review the recommendations. ■

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Value

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performance. Last year, the opposite held, as the indexes outperformed all international funds.

But many funds are not embracing EAFE or FT-A Europe and Pacific market capitalization weightings in their foreign exposures. The approximately $10 million International Emerging Stock fund of Wellington Trust Co., the second best performer for the quarter and tops for the year ended Sept. 30, only had about a 21% Japanese stock market weighting at the third quarter's end. Yet, "my Japanese stocks were up 41% in the last year. That was more than twice as much as the Japanese index overall," said Marie-Claude Bernal, vice president, Wellington Trust.

Astute stock picks also produced, in U.S. dollars, a 54% gain in the Spanish market and a whopping 131% from Belgian stocks in the last 12 months.

According to Ms. Bernal, Wellington's Emerging Company Stock fund invests in issues of smaller companies, those with maximum annual revenue of $250 million. The fund seeks stocks with "low valuation levels, and also with an open capital structure, so the company can be taken over," Ms. Bernal said, adding in the past year 8% of the portfolio consisted of stocks that were takeovers. Last quarter, the fund sold its holding in **Lemona,** a Spanish real estate company whose stock tripled in price this year on takeover talk.

Stellar Belgian performers included **Barco Electronics,** whose price rose threefold in about two years, and **Deceuninck**, a maker of window frames, whose stock price quintupled in the last three years, according to Ms. Bernal. The overall "Belgian market wasn't that strong. It (advanced) less than EAFE during the last quarter. But my small company stocks did very well," she added.

The $9.1 million International Collective Equity Fund of Wilmington Trust, a fund also known as the International Multi-Manager Fund, uses three outside advisers: Edinburgh Fund Managers, Edinburgh, Scotland; Clemente Capital Management, New York; and Scudder, Stevens & Clark, New York. With a third-place return of 16.49% for the quarter and a third-place 34.24% for the year ended Sept. 30, the fund has benefited from the diversity of styles as well as differences in their geographic expertise, said Catherine Gordon, the fund's portfolio manager.

In the third quarter, the Multi-Manager Fund advanced on "country weightings more than any particular stock pick," said Ms. Gordon. For instance, "most of the managers placed fairly heavy bets in Hong Kong" in the wake of that market's plunge following the late spring political crackdown in China. At the end of the third quarter, the fund had a 7.9% Hong Kong weighting, up from 5.8% at the end of the second quarter.

The Multi-Manager Fund also benefited included a 6.1% exposure to the French market.

The $5.3 million International Common Stock fund of Confederation Life Insurance Co., Atlanta, No. 4 for the quarter, also ranked second for the one- and three-year periods. That fund returned 16.24% for the quarter and 34.62% for the year. Its three-year annualized return was 23.46%.

According to Peter Clark, assistant vice president-securities in the Toronto office, the fund "concentrates on value" investing. In the third quarter, four of the fund's top five performing stocks were Japanese, even though the fund was underweighted in that market. In the past year, the fund maintained about a 30% exposure to the Tokyo market, Mr. Clark said.

Among Confederation's winners in Japan were: **Orix**, a financial leasing company which vaulted 84% in the third quarter, and **Fuji Machine**, close behind with an 82% gain during the period. Mr. Clark said Fuji Machine "is enjoying an earnings explosion," while Orix became discovered as a "cheap stock within the financial sector in Japan." Other sterling stocks included **York Benimaru**, a Japanese food retailer "enjoying good earnings growth," and the **Thai Fund**, which leaped 40% during the quarter. In the latter case, many "foreign investors have been keen on buying the Thai market, and (the Thai Fund) tended to be the vehicle many used," said Mr. Clark. ■

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Harris Trust (Eq.), Ill.	30.1
Assoc. Bank-Neenah (World)	29.3
Trust Co. of the West (Global)	27.6
Travelers Cos. (SA W), Calif.	27.1
FTA World Index	**25.9**
MSCI World Index	**25.8**
Aetna Capital (Eq.), Conn.	25.5
Wellington Trust (Eq.)	25.4
CIGNA (Eq.), N.Y.	25.4
The Principal (Eq.), Iowa	24.9
PCM Int'l (Print eq.), N.J.	24.0
Bankers Trust (EAFE index), N.Y.	22.6
MSCI EAFE Index	**22.6**
Travelers Cos. (Index), Conn.	22.3
FTA Europe & Pacific Index	**22.2**
State Street Bank (Index), Mass.	21.8
Wells Fargo (Eq.), Calif.	21.7
Prudential (Foreign eq.), N.J.	21.3
Union Bank (Eq.), Calif.	21.1
Wellington Trust (Pacific Basin)	21.1
American Nat'l Chicago (Eq.)	21.0
Boatmen's Trust (Coll. W), Mo.	20.9
Chase-CMB (EAFE index), N.Y.	20.8
Citicorp Invst. (Eq.), N.Y.	20.4
Chase-CMB (Eq.), N.Y.	18.3
Marine Midland (Eq.), N.Y.	17.7
IDS Trust (Eq.),Minn.	17.0
MTrust (Eq.), Texas	15.9
PCM Int'l (Global bond), N.J.	11.9
IAA Trust (CTF-I), Ill.	10.5
PCM Int'l (Global yield), N.J.	9.5
WorldInvest (Fixed), N.Y.	8.1
Citicorp Invst. (Fixed), N.Y.	6.3
MTrust (Bond), Texas	6.1
PCM Int'l (Foreign bond), N.J.	4.1
Chase-CMB (Fixed), N.Y.	2.7

5-year returns

	%
Chase-CMB (EAFE index), N.Y.	36.7
MSCI EAFE Index	**36.6**
FTA Europe & Pacific	**36.6**
American Nat'l Chicago (Eq.)	36.5
WorldInvest (Eq.), N.Y.	36.1
Wells Fargo (Eq.), Calif.	35.8
Bankers Trust (Eq.), N.Y.	34.1
Wellington Trust (Pacific Basin)	31.7
CIGNA (Eq.), Conn.	31.5
Chase-CMB (Eq.), N.Y.	31.0
Aetna Capital (Eq.), Conn.	30.6
Putnam Cos., Mass.	30.5
Marine Midland (Eq.), N.Y.	29.8
Citicorp Invst. (Eq.), N.Y.	29.5
Wellington Trust (Eq.), Mass.	28.9
NCNB Texas (Eq.)	27.9
Union Bank (Eq.), Calif.	27.9
MSCI World Index	**27.8**
FTA World Index	**27.8**
Boatmen's Trust (Coll. W)	27.4
PCM Int'l (Global bond), N.J.	26.0
IDS Trust (Eq.), Minn.	25.7
Travelers Cos. (SA W), Conn.	25.5
WorldInvest (Fixed), N.Y.	22.2
PCM Int'l (Foreign bond), N.J.	21.3
Citicorp Invst. (Fixed), N.Y.	18.5

10-year returns

	%
American Nat'l Chicago (Eq.)	22.0
MSCI EAFE Index	**21.8**
Putnam Cos., Mass.	20.0
MSCI World Index	**19.3**
Citicorp Invst. (Eq.), N.Y.	18.7

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PIPER

Growth, value make the difference

Time period determines better style

By Leonard J. Hollie

Investments in growth stocks propelled some bank and insurance company commingled special equity accounts into the ranks of top-performing funds for the quarter and year ended Sept. 30, while an emphasis on value paid off in the longer term in Pensions & Investments' Performance Evaluation Report.

The top finisher for the year was the $169 million, 17-year-old Chase Investors Management Corp. CMB Medium Capitalization Fund, New York. It returned 58.9% through investments in companies with capitalizations from $500 million to $1.5 billion.

"We are looking to be niche players in companies with above-average earnings prospects," said Mike Schonberg, managing director. "The overall exposure is on strong visible growth areas, while shunning cyclicals and technology stocks."

Among the fund's holdings, **Edison Brothers Stores Inc.**, was up more than 60%; **Calgon Carbon Corp.** was up 30% and **Tyson Foods Inc.** rose 60%, Mr. Schonberg said.

The median special equity fund in the 104-fund PIPER universe returned 27.97% for the year, compared with the Standard & Poor's 500 Stock Index return of 32.83% and the Russell 2000 return of 11.92%.

Some of the worst performers were invested heavily in technology stocks and small-company stocks, which didn't perform well in a very volatile market.

"Technology stocks brought down our portfolio in the second quarter," said Dave Urben, assistant vice president and fund manager of the $21 million Supplemental Equity Fund of Union Bank, San Diego, Calif. The fund came in last for the 12-month period, with 9.38%, but was first in the 10-year returns. "We had a very difficult second quarter, (the fund returned 0.78%) but we bounced back in the third quarter," Mr. Urben said.

For the year, Mutual of New York's Special Equity Fund placed second with a return of 47.9%.

The third quarter's top performer was the 6-year-old $7.3 million IDS Trust Emerging Growth Fund, Minneapolis, with a return of 19.21%. Gordon Fines, IDS president, attributed the fund's showing to investments in consumer retail and health care stocks and to limited exposure in technology stocks. The fund tries to invest in companies that managers think will grow by 20% a year for three or more years, Mr. Fines said.

For the third quarter, the median PIPER fund returned 8.85%, the S&P 500 returned 10.73% and the Russel 2000, 6.75%.

Some of the IDS fund's largest health care holdings include **Oracle Systems Corp.**, **H.M.S.S. Inc.**, **FHP International Corp.** and **New England Critical Care Corp.** Its largest holdings in consumer stocks include **Sotheby's Holdings Inc.** and **L.A. Gear Inc.**

Coming in second for the quarter was New York-based Chancellor Capital Management's Emerging Health Care Fund, with a return of 16.87%.

NCNB Texas' $13 million Select Equity Fund won top honors in both the three- and five-year periods, with compound annualized returns of 40.37% and 35.49%, respectively.

The median PIPER special equity fund for the periods returned 16.78% and 16.93%, respectively. All returns for periods of more than one year are compound annualized. For the same periods, the S&P returned 18.64% and 20.3% respectively, and the Russell 2000 returned 11.92% and 13.38%.

The value-oriented NCNB fund holds a small number of stocks and looks for companies with a low price-earnings ratio on a trailing basis.

"We are looking for stocks that are quite inexpensive on a valuation basis, and that look cheap in terms of cash flow," said David Gardner, senior vice president and director of equity research. "This is not a takeover fund, but we are also looking for companies that are about to undergo a corporate revamping."

The five stocks in the fund are **Caesars World Inc.**, **King World Productions Inc.**, **NYNEX Corp.**, **Harley-Davidson Inc.** and **Ramada Inc.**

Mr. Gardner said his value-oriented approach was able to perform well even though a value style rarely outperforms the market indexes. "This fund is shorter term than most commingled funds," he said. "And though we don't outperform the indices in the short term, over the long term value does tend to outperform the indices."

At Union Bank, investments in consumer and health care stocks were responsible for the fund's 23.3% top 10-year performance, said Mr. Urben.

"The fund invests in small emerging growth stock companies that are in areas of rapid growth," said Mr. Urben. "We are looking for companies that have products or a niche that allows them to grow rapidly over time."

Some of the fund's largest holdings include **Liz Claiborne Inc.** and **Autodesk Inc.** Some of the stocks in their medical field holdings include **Nichols Institute** and **Diagnostek Inc.** Another stock Mr. Urben expects to show rapid growth is **Fastenal Co.**, which is a distributor of industrial parts. The company grew 38% this year, Mr. Urben said.

For the 10 years, the PIPER median returned an annualized 17.43%, beating the S&P's 17.35% and the Russell's 15.47%. ■

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PIPER special equity funds
(periods ended Sept. 30)

	Quarter	1 yr.	3 yr.	5 yr.	10 yr.
Highest return	19.21%	58.90%	40.37%	35.49%	23.30%
First quartile	11.67	34.86	20.24	20.86	19.44
Median	8.85	27.97	16.78	16.93	17.43
Third quartile	6.55	22.26	13.75	14.20	14.87
Lowest return	2.52	9.38	7.16	6.81	12.56
S&P 500	**10.73**	**32.83**	**18.64**	**20.30**	**17.35**
Russell 2000	**6.75**	**21.49**	**11.92**	**13.38**	**15.47**

PIPER + special equity funds
(periods ended Sept. 30)

	Quarter	1 yr.	3 yr.	5 yr.	10 yr.
Highest return	19.14%	75.56%	28.83%	28.19%	29.28%
First quartile	13.07	37.74	22.73	23.47	23.88
Median	9.80	28.20	18.50	19.91	21.67
Third quartile	7.10	23.15	14.74	16.94	17.66
Lowest return	1.17	16.73	10.49	11.41	15.08
S&P 500	**10.73**	**32.83**	**18.64**	**20.30**	**17.35**
Russell 2000	**6.75**	**21.49**	**11.92**	**13.38**	**15.47**

PIPER + balanced/TAA funds
(periods ended Sept. 30)

	Quarter	1 yr.	3 yr.	5 yr.	10 yr.
Highest return	11.40%	32.34%	26.62%	27.02%	24.79%
First quartile	7.00	23.62	15:41	18.77	17.07
Median	5.69	21.15	14.06	17.30	15.44
Third quartile	5.04	17.78	12.24	15.94	14.77
Lowest return	1.00	9.66	8.55	13.21	13.50

Top quartile commingled special equity funds

3-month returns

	%
IDS Trust (Emerg. growth F)	19.2
Chancellor (Emerg. health care)	16.9
Central Fidelity (Growth), Va.	16.9
Trust Co. of the West, Calif.	16.1
Lincoln Nat'l (Opp.), Ind.	15.6
First Wis. Asset (Growth B)	15.4
Princeton Bank (Value), N.J.	14.4
Metropolitan Life (SA 43), N.Y.	13.7
John Hancock-IIA (Amp. Alpha)	13.4
First Wis. Asset (Emerg. growth)	13.1
MTrust (Growth), Texas	13.0
Meridian Invst. (Quest), Pa.	12.7
Chase-CMB (Med. cap.), N.Y.	12.6
Merus Capital (Spec. gro.), Calif.	12.6
Connecticut Nat'l Bank (Sup.)	12.5
Mellon Equity Assoc., Pa.	12.2
Comerica, Mich.	12.1
Manufacturers Detroit (Sm. cap. I)	11.9
Banc One Asset, Ohio	11.9
S&P 500	**10.7**
Russell 2000	**6.8**

1-year returns

	%
Chase-CMB (Med. cap.), N.Y.	58.9
Mutual of New York	47.9
Assoc. Bank-Neenah (Inc.)	46.1
Connecticut Bank (Sup.)	44.4
Putnam Cos. (Growth), Mass.	40.3
Meridian Invst. (Quest), Pa.	39.8
Trust Co. of the West, Calif.	38.1
Lincoln Nat'l (Opp.), Ind.	37.2
MTrust (Growth), Texas	37.0
IDS Trust (Emerg. growth F)	36.6
Wellington Trust (Spec. sit.)	36.3
First Wis. Asset. (Growth B)	36.2
The Phoenix (Growth S), Conn.	36.2
John Hancock-IIA (Amp. Alpha)	36.1
Mercantile Bank (N), Mo.	35.8
Wells Fargo (Tilts & timing), Calif.	35.6
Banc One Asset, Ohio	35.1
SLH Trust (New values 3), Del.	35.1
First City Nat'l (G-1), Texas	34.9
First Wis. Asset (Em. growth C)	34.9
S&P 500	**32.8**
Russell 2000	**21.5**

3-year returns

	%
NCNB Texas	40.4
First City Nat'l (G-1), Texas	32.5
Wellington Trust (Spec. sit.)	28.4
Connecticut Nat'l Bank (Sup.)	25.9
Mutual of New York	24.4
Equitable Capital (Tangible asset)	23.9
Putnam Cos. (Growth), Mass.	23.4
John Hancock-IIA (Amp. Alpha)	22.5
Meridian Invst. (Quest), Pa.	21.8
The Phoenix (Growth S), Conn.	21.7
Central Fidelity (Growth), Va.	21.5
SLH Trust (Small cap. 5), Del.	21.5
Society Nat'l (Central value), Ohio	21.2
Deposit Guaranty (Opp.), Miss.	21.0
Connecticut Bank (Sup.)	21.0
Massachusetts Mutual (SIA S)	20.9
Chase-CMB (Med. cap.), N.Y.	20.5
First Asset Mgmt. (II), Minn.	20.2
S&P 500	**18.6**
Russell 2000	**11.9**

5-year returns

	%
NCNB Texas	35.5
SLH Trust (Growth 2), Del.	32.3
SLH Trust (New values 3), Del.	31.4
Assoc. Bank-Neenah (Reg.)	28.0
John Hancock-IIA (Amp. Alpha)	25.9
Chase-CMB (Med. cap.), N.Y.	25.0
Assoc. Bank-Neenah (Inc.)	24.7
Connecticut Nat'l Bank (Sup.)	23.7
Meridian Invst. (Quest), Pa.	23.0
Chancellor (Value), N.Y.	22.3
Trust Co. of the West, Calif.	22.1
SLH Trust (Small cap 5), Del.	22.0
Equitable Capital (Tangible asset)	21.6
First Asset Mgmt. (20), Minn.	21.2
S&P 500	**20.3**
Russell 2000	**13.4**

10-year returns

	%
Union Bank (Sup.), Calif.	23.3
Chase-CMB (Med. cap.), N.Y.	22.0
MTrust (Growth), Texas	21.4
Prudential (Midco-sm./med. cap.)	20.8
Chancellor (Value)	19.8
S&P 500	**17.4**
Russell 2000	**15.5**

Top two deciles PIPER + special equity funds

3-month returns

	%
Fred Alger Mgmt. (Small cap.)	19.1
Wall Street Assoc. (Sm. cap. gro.)	19.1
Pacific Century (Emerg./sm. cap.)	17.9
Columbus Circle (IC plan)	15.7
Columbus Circle (Comp.)	14.5
Jundt/Capen Assoc. (Small cap.)	14.4
Columbus Circle (Rep.)	13.9
S&P 500	**10.7**
Russell 2000	**6.8**

1-year returns

	%
Fred Alger Mgmt. (Small cap.)	75.6
Wall Street Assoc. (Sm. cap. gro.)	50.3
Columbus Circle (IC plan)	44.2
Pacific Century (Emerg./sm. cap.)	43.7
Mass. Financial (Aggress.)	42.1
Columbus Circle (Rep.)	41.4
Columbus Circle (Comp.)	40.6
S&P 500	**32.8**
Russell 2000	**21.5**

Continued on page 30

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Balanced, equity funds fall short

PITTSBURGH — Median balanced funds in the Graphical Ranking of Investment Descriptors universe underperformed their benchmarks in the third quarter.

The median equity portfolio underperformed the stock market, while the median aggressive equity fund bettered it slightly. The median bond fund slightly outperformed the bond market.

The median low-equity balanced fund in the GRID universe, tracked by Yanni-Bilkey Investment Consulting, Pittsburgh, returned 3.7% in the quarter. Its benchmark — 35% of the Standard & Poor's 500 Stock Index, 50% of the Shearson Lehman Hutton Government/Corporate Bond Index and 15% of the 91-day Treasury bill return — was up 4.5%.

The median core-equity balanced fund returned 5%, while its benchmark was up 5.9%. This benchmark is 50% of the S&P 500, 40% of the Shearson Lehman Hutton Index and 10% of the T-bill.

The median high-equity balanced fund returned 6.7% and its benchmark returned 7.3%. This benchmark is 65% of the S&P 500, 30% of the bond index and 5% of the T-bill.

The median equity portfolio returned 9.7% in the quarter to the S&P 500's 10.7%. The median aggressive equity portfolio returned 11%.

The median bond fund returned 1.1%, beating the 0.9% posted by the Shearson Lehman Hutton index.

For the year ended Sept. 30, the median low-equity balanced fund returned 14.7%, lagging its benchmark's 18.1%. The median core-equity balanced fund returned 18.4% to its benchmark's 21.4%; and the median high-equity balanced fund was up 21.3%, compared with its bogey's 24.9%.

The median equity fund returned 30%, while the S&P 500 was up 32.8% for the year. The median aggressive equity fund returned 31.5%. The median bond fund returned 10.3% for the year, lagging the Shearson Lehman Hutton's 11.3%.

For the five years ended Sept. 30, the median low-equity balanced fund had a compound annual return of 14.1%, compared with its benchmark's 14.9%. The median core-equity balanced fund returned 15.3%, while its benchmark had 16.3%, and the median high-equity balanced fund returned 17.4% to its bogey's 17.7%.

The median equity portfolio had a compound annual 19%, while the S&P 500 had 20.2%. The median aggressive equity fund had 19.4%. The median bond fund returned 12.7%, closely tracking the Shearson Lehman Hutton's 12.8%. ■

Continued from page 29

3-year returns

	%
Jundt/Capen Assoc. (Small cap.)	28.8
Columbus Circle (IC plan)	25.5
First Pacific Advisors (Dallas)	24.3
Wall Street Assoc. (Sm. cap. gro.)	24.0
Pacific Century (Emerg./sm. cap.)	23.7
Putnam Cos. (Spec. growth)	23.4
S&P 500	**18.6**
Russell 2000	**11.9**

5-year returns

	%
Columbus Circle (IC plan)	28.2
Pacific Century (Emerg./sm. cap.)	26.6
Columbus Circle (Comp.)	25.6
Jundt/Capen Assoc. (Small cap.)	24.5
Putnam Cos. (Emerg. growth)	24.1
Putnam Cos. (Spec. growth)	23.7
S&P500	**20.3**
Russell 2000	**13.4**

Top two deciles PIPER + Balanced/TAA funds

3-month returns

	%
Value Line (Balanced)	11.4
J & W Seligman (Balanced)	10.9
Institutional Capital (Balanced)	10.6
Cheswick Invst. (Balanced)	10.6
Furman Selz Capital (Balanced)	9.8
Forstmann Leff (Balanced)	9.8
Fred Alger Mgmt. (Balanced)	9.4
Frontier Capital (Balanced)	9.4
Gardner and Preston Moss	8.4
Securities Counselors/Iowa (Bal.)	7.7
Chancellor (Balanced)	7.6

1-year returns

	%
J & W Seligman (Balanced)	32.3
Cheswick Invst. (Balanced)	29.4
Institutional Capital (Balanced)	29.4
QuantiLogic Asset Mgmt. (TAA)	28.5
Value Line (Balanced)	28.4
Frontier Capital (Balanced)	27.4
Bessemer Trust (Balanced)	26.3
Forstmann Leff (Balanced)	26.0
Fred Alger Mgmt. (Balanced)	25.0
Invst. Counselors (Balanced)	25.3
Furman Selz Capital (Balanced)	24.8

3-year returns

	%
Chancellor (Stockshift 200)	26.0
Institutional Capital (Balanced)	22.2
QuantiLogic Asset Mgmt. (TAA)	21.1
Invst. Counselors (Balanced)	20.4
Chancellor (Stockshift 100)	18.3
Value Line (Balanced)	17.7
Mellon Equity (Quant. strat.)	17.3
Kirr, Marbach (Balanced)	17.1
Lincoln Capital (Balanced)	16.8
Bessemer Trust (Balanced)	15.9

5-year returns

	%
Chancellor (Stockshift 200)	27.0
Institutional Capital (Balanced)	23.3
Mellon Equity (Quant. strat.)	20.5
Chancellor (Stockshift 100)	20.3
Invst. Councelors (Balanced)	19.8
Philadelphia Invst. (Balanced)	19.8
Bessemer Trust (Balanced)	19.3
Value Line (Balanced)	19.1
J & W Seligman (Balanced)	18.9

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2 set up ESOPs

Continued from page 1
on the amount of stock an ESOP had to own to take advantage of the tax benefits.

"The interest income exclusion is nice, but not essential" to encourage companies to form ESOPs, Mr. Rosen said.

With the interest exclusion essentially eliminated for most ESOPs, some observers wonder about the impact on the incentive of banks and insurance companies, the primary lenders that qualify for the favored tax treatment, to seek ESOP loans.

"The interest exclusion brought the banking community in in a big way" with ESOP loans, added David M. Binns, executive director, Employee Stock Ownership Association, Washington.

"But will they continue to promote ESOPs as aggressively as they have?"

The essential elimination of the exclusion restriction could encourage more public offerings of ESOP debt, because investment banks — non-qualified lenders — can for the most part compete on the same basis in pricing such borrowings.

To date, there hasn't been any public offering of ESOP debt, although McDonald's Corp. and Brunswick Corp. went as far as preparing filings with the Securities and Exchange Commission for such offerings earlier this year. Each company wound up using conventional ESOP financing sources of private placements and bank debt.

The ESOP measure adopted by Congress is part of a budget reconciliation bill designed to raise revenue and cut spending, and is awaiting action by President Bush.

Since the beginning of the year, some $25.7 billion in ESOPs have been financed or announced. Of that total, $24.22 billion comes from ESOPs by about 110 major companies, and $1.5 billion from ESOPs valued at less than $10 million each by an estimated 250 smaller companies.

In 1988, by contrast, $5.6 billion in ESOPs were set up by about 35 major companies.

"For public companies the most important incentive is the dividend deduction," Mr. Binns said.

"From employers' perspective, all they lost is reduced interest rate (because of the essential elimination of the interest exclusion). I don't think it will significantly curtail ESOP activity." The interest exclusion typically enabled companies to borrow at about 90% of their normal corporate interest rate.

"I think there will continue to be a significant amount of activity in ESOPs," said Louis T. Mazawey, principal and attorney with the Washington law firm of Groom & Nordberg, which represented Chevron and other companies in lobbying Congress on the issue.

Chevron's ESOP would hold roughly 5% of the company's stock.

Together with the 11% now held by an existing profit-sharing plan, the ESOP would increase such employee benefit plans' holdings to 16%.

The company plans to integrate the ESOP with the profit-sharing plan. Chevron will allocate the shares to employees in place of shares the company normally purchased each quarter on the open market.

Chevron plans to issue new shares, roughly 17 million, to sell to the ESOP and then over time repurchase the same number of shares on the market to avoid dilution.

Stephen A. McLennan, manager-investor relations, said Chevron hopes to finance the ESOP by borrowing $1 billion from banks by the end of the year. He wouldn't identify the banks.

Goldman, Sachs & Co., New York, is advising Chevron, he noted.

In addition to the ESOP, Chevron will set up a new separate capital accumulation benefit plan for non-union employees who participate in the profit-sharing plan.

Employee contributions will not be required to receive an additional company contribution of 2% of each participant's base pay. Employees then will have four options for investing the proceeds, including company stock.

Both the conversion of its profit-sharing plan to the ESOP and the new capital accumulation plan will be offered to union employees through collective bargaining.

Mr. McLennan said the creation of the ESOP was tax-driven, rather than an anti-takeover device.

"It puts additional stock in employees' hands, but it's not the primary motive," he said.

"It's a tax-driven incentive. We had a tax-advantaged ESOP several years ago that was wound up when the tax benefits went away. Our record is that when an incentive is offered, we see if we can take advantage of it."

At Dayton Hudson, executives said the company expects to proceed with its ESOP, held in abeyance since summer (*Pensions & Investment Age*, Aug. 7).

"We announced in July the intention to set up an ESOP and the board (of directors) authorized the issuance of 7 million shares of stock to the plan and the repurchase of 7 million shares of (common) stock" on the open market, said James R. Eckmann, assistant treasurer.

"It's sort of been on hold ever since because of legislative action (that was pending) in Washington. It appears that has been settled.

"It appears we will go ahead (with the ESOP) in 1990. The dividend deduction was the key."

Fred Hamacher, vice president-compensation and benefits, at Dayton Hudson, added "We had to have the dividend deduction, or it (the ESOP) was a no-go."

To avoid dilution in anticipation of the ESOP, Stephen Kowalke, director of long-term financing, said Dayton Hudson completed the purchase of 7 million shares on the open market in October.

The company would sell the ESOP preferred stock, convertible into common stock, roughly equivalent to the 7 million shares, valued at $400 million based on the recent stock price. The ESOP would hold about 10% of the company's stock.

Mr. Hamacher said Dayton Hudson plans "to pass along the majority of the tax benefits" to employees by increasing their benefits.

Dayton Hudson plans to integrate the new ESOP with its existing 401(k) plan, contributing $1 worth of company stock for every $1 an employee saves in the plan. That would represent a doubling of the current 50 cents the company contributes for every $1 an employee saves, up to 5% of wages or salary.

An employee receives no match above 5%.

Mr. Kowalke declined to identify Dayton Hudson's financial advisers for the ESOP. ■

ESOPs of $100 million or more announced in 1989

	($ millions)
Bell Atlantic	1,000
BellSouth	1,000
Chevron	1,000
Exxon	1,000
Procter & Gamble	1,000
Xerox	785
GTE	700
ITT	700
United Technologies	660
Ameritech	625
HCA Psychiatric	600
3M	550
Anheuser-Busch	500
Delta Airlines	500
Lockheed	500
Ralston Purina	500
U S West	500
Whitman	500
Southwestern Bell	455
Quantum	439
Colgate-Palmolive	411
Dayton Hudson	400
May Department Stores	400
Merrill Lynch	385
Melville	360
Sara Lee	350
Tribune	350
Boise Cascade	302
FMC	300
Upjohn	300
Armstrong World	270
PPG	252
Unisys	250
Simmons	240
Johnson Controls	233
LTV Bar	220
Houston Northwest	213
CPC	200
General Motors	200
Nalco Chemical	200
Travelers	200
Levi Strauss	190
Cooper Industries	175
Consolidated Freightways	150
Eaton	150
General Re	150
Houston Med	150
Inland Steel	150
Nu-Med	150
Quaker Oats	150
Citizens & Southern	125
McKesson	125
Square D	125
USAir	114
Walco Chemical	112
Oryx Engineering	110
St. Paul	110
Stanley Works	102
Betz Laboratories	100
Brunswick	100
Burlington Industries	100
McDonald's	100
Olin	100
Textron	100

Sources: Securities Data Corp., Newark, N.J.; National Center for Employee Ownership, Oakland, Calif.; others.

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December 25, 1989

THE NEWSPAPER OF CORPORATE AND INSTITUTIONAL INVESTING

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Mobil sets ESOP debt

$800 million public issue expands plan's holdings

By Curtis Vosti

NEW YORK — Mobil Oil Corp. is offering $800 million in public debt to fund an expansion of its employee stock ownership plan, one of the first companies to tap the public markets for that reason.

Mobil decided to use public debt financing for its ESOP after Congress cut back a major tax benefit to ESOP lenders, according to company spokesman John Lord.

"The ESOP as structured had been in the planning stage for some time," Mr. Lord said.

On Nov. 22 — the same day Mobil arranged a bridge loan to finance its ESOP's purchase of a new issue of Mobil convertible preferred stock — Congress eliminated the tax deduction to lenders, except in cases where the ESOP controls more than 50% of the company's outstanding shares. That deduction lowered borrowing rates, which, in turn, made leveraged ESOPs attractive to companies.

Mobil's ESOP controls only 8% of the company after purchasing the $800 million in convertible preferred stock. The ESOP had owned about 5%.

Despite not being able to have its lenders qualify for the tax breaks, Mobil went ahead with the ESOP, using convertible preferred stock.

As to why Mobil decided to expand the ESOP, Mr. Lord said: "The company historically has always tried to fund an employee savings plan as good as or better than most."

The Mobil Oil Corp. ESOP Trust will use the proceeds of the debt issue to refinance the $800 million bridge loan it used to acquired all 102,894 shares of the Mobil convertible preferred issue. The preferred securities have a dividend yield of $6 on a stock price of 77¾, according to Paul Mazzilli, principal of Morgan Stanley & Co., and head of its ESOP group.

Morgan Stanley has been advising Mobil on the ESOP transaction for several months, according to Mr.

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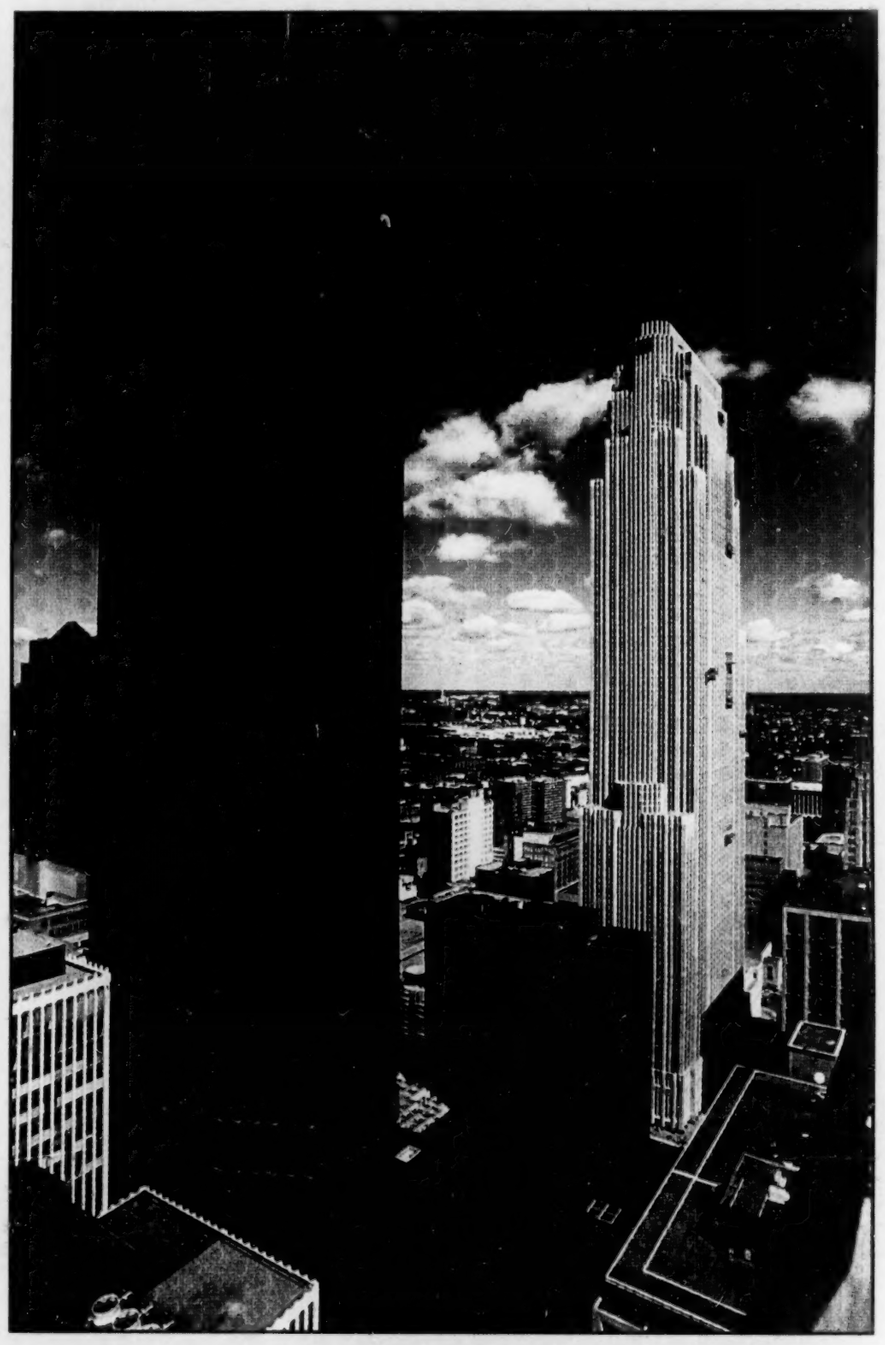
Mobil Oil is credited with being one of the first to tap the public market for ESOP financing.



The Minneapolis city employees' pension fund invested $12 million in a limited partnership aimed at revitalizing and de-leveraging struggling companies.

Minneapolis joins turnaround fund

By Trudy Ring

MINNEAPOLIS — The $900 million Minneapolis Employees' Retirement Fund has committed $12 million to a limited partnership designed to rebuild and de-leverage troubled companies.

The partnership, Red Oak Turnaround Fund, is managed by Red Oak Investment Corp., Minneapolis. It is seeking to raise a total of $60 million.

John Chenoweth, executive director and chief investment officer of the Minneapolis pension fund, said corporate revitalization funds are an attractive option to traditional venture capital and leveraged buyout investments. He is considering a commitment to a second fund but said it would be premature to identify it.

A growing number of such funds are seeking commitments from pension funds and other institutional investors (*Pensions & Investment Age,* Dec. 11).

Red Oak Turnaround

Continued on page 34

Private investment growth seen

By Mike Clowes

NEW YORK — Private investments will become a significant part of pension fund portfolios in the next decade, participants in a *Pensions & Investment Age* roundtable discussion on institutional investing in the 1990s agreed.

The panelists — W. Gordon Binns Jr., vice president and chief investment funds officer at General Motors Corp.; Steve Canter, president, Mitchell Hutchins Institutional Investors; Steve Rogers, principal, Rogers, Casey & Associates; and Brian Wruble, president and chief executive officer, Equitable Capital Management — also agreed that:

- Individual investors will continue to decline in importance in the stock market;
- Concerns about market volatility have been overdone, but structural changes in the relationship between the cash and futures markets are needed;
- Internationalization of the

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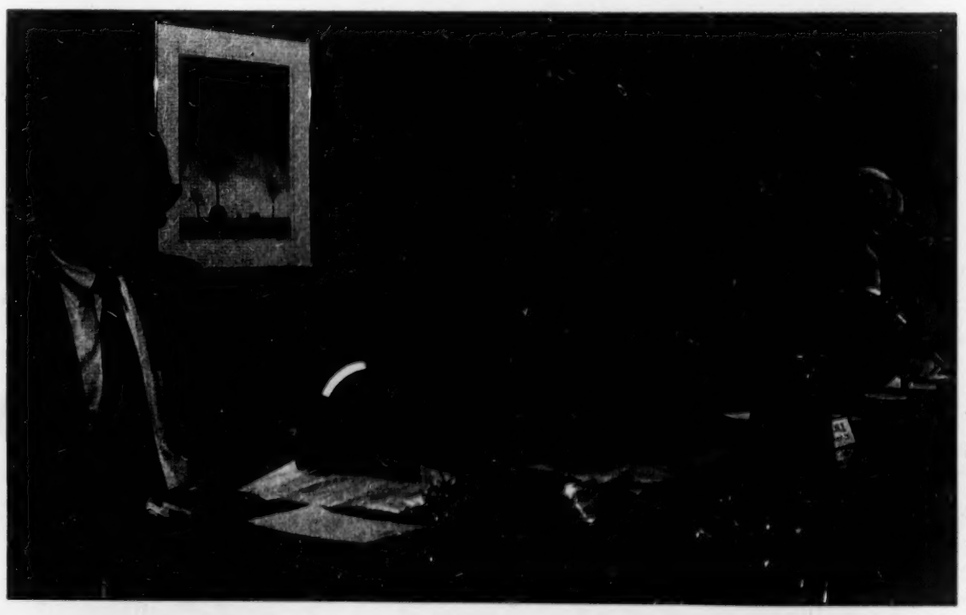

Photo by Barry Kaufman

Participants in *P&I Age*'s roundtable discussion see private investments capturing a larger share of pension fund portfolios in the next decade.

Full text of the roundtable discussion — page 27.

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Paving the way
PRIM reaps rewards from novel global policy - 13

Changes in the wind
A flurry of pension legislation is seen for next 15 years - 22

LATE NEWS

Missouri shifts asset allocation

JEFFERSON CITY, Mo. — The $1.6 billion Missouri State Employees' Retirement System has hired a fixed-income manager and terminated an equity manager as part of a major asset allocation shift.

The fund hired Mississippi Valley Advisors Inc., St. Louis, to manage $110 million in intermediate bonds, said M. Steve Yoakum, executive director. It terminated Alliance Capital Management L.P., New York, which had run $294 million in equities. The system plans to distribute the remainder of the Alliance money among existing managers.

The system has shifted its target asset allocation to 46% equities and 54% bonds, from 57% equities, 30% bonds, 10% real estate and 3% venture capital. "We've had a pretty good run in the stocks since we became more aggressive in 1982," Mr. Yoakum said. Trustees now want to take a more conservative posture.

In real estate and venture capital, the system likely will make no new investments and let existing investments run their course.

Callan Associates Inc., Chicago, is assisting in the restructuring.

8 chosen by American Airlines

FORT WORTH, Texas — American Airlines hired five managers for its $2 billion fixed benefit fund and $1.5 billion pilot's variable pension plan.

Morgan Stanley Asset Management International, London; Templeton International, Fort Lauderdale, Fla.; and HD International, New York, each will manage international equity portfolios of $30 million to $40 million for each plan, according to William F. Quinn, president of AMR Investment Services, American's investment management subsidiary. HD International already runs a $45 million international portfolio for American's fixed benefit fund and was added as a manager for the pilot's fund, he said.

Boatman's Trust Co., St. Louis, and Ganucheau, Stupfel & Brumley, Fort Worth, will run balanced portfolios of between $30 million and $40 million each for the fixed benefit fund, said Mr. Quinn.

Mr. Quinn also announced the three managers that will run portfolios of approximately $330 million each for American's $1 billion dedicated bond fund. Barrow, Hanley, Mewhinney & Strauss Inc., Dallas; Western Asset Management Co., Pasadena, Calif.; and Goldman, Sachs Asset Management, New York, will manage the assets on a performance-based fee arrangement.

Texas fund adds to international

AUSTIN, Texas — The $23.5 billion Teacher Retirement System of Texas has expanded its international investments by placing $52.6 million in three international mutual funds.

The plan invested $19.5 million with T. Rowe Price Associates Inc.'s International Stock Fund; $19.4 million with Scudder, Stevens & Clark's International Fund; and $13.7 million with the Templeton International's Foreign Fund. Assets came from a reallocation of domestic equities managed internally.

Fort Lauderdale hires for bonds

FORT LAUDERDALE, Fla. — The $125 million Fort Lauderdale Police & Fire Retirement System selected Sovran Capital Management, Richmond, Va., to manage $20 million in fixed income, subject to fee negotiations, said Len Olivieri, plan administrator.

Funding will come from a balanced account run by INVESCO Capital Management's Coral Gables, Fla., office. INVESCO still will manage about $75 million for the system, Mr. Olivieri said. SEI Funds Evaluation Services, Atlanta, was consultant.

Fund taps balanced managers

RICHMOND, Va. — The Retail Merchants of Greater Richmond has hired Signet Asset Management and Capitoline Investment Services Inc. to run $10 million each in balanced accounts. Both firms are based in Richmond.

The assets — operating capital for the tax-exempt trade association derived from the December 1988 sale of the Credit Bureau of Richmond — will be invested mostly in fixed-income securities, with a 20% limit on equity investments, an association official said. No consultant was used.

McIlroy moves to State Street

BOSTON — Joan McIlroy has joined State Street Bank and Trust Co. as vice president-marketing.

Previously she was vice president-sales and marketing with Chancellor Capital Management, New York.

She will be marketing all of State Street's asset management products, concentrating on the upper end of the tax-exempt market.

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Vol. 17, No. 27 — Pensions & Investment Age (ISSN 0273-5466) is published biweekly with a special edition in May by Crain Communications, Inc., 740 Rush St., Chicago, Ill. 60611-2590. Second class postage paid at Chicago, Ill. and at additional mailing offices. Postmaster: Send address changes to Pensions & Investment Age, Circulation Dept. 965 E. Jefferson, Detroit, Mich. 48207.

Retirees must dig deeper

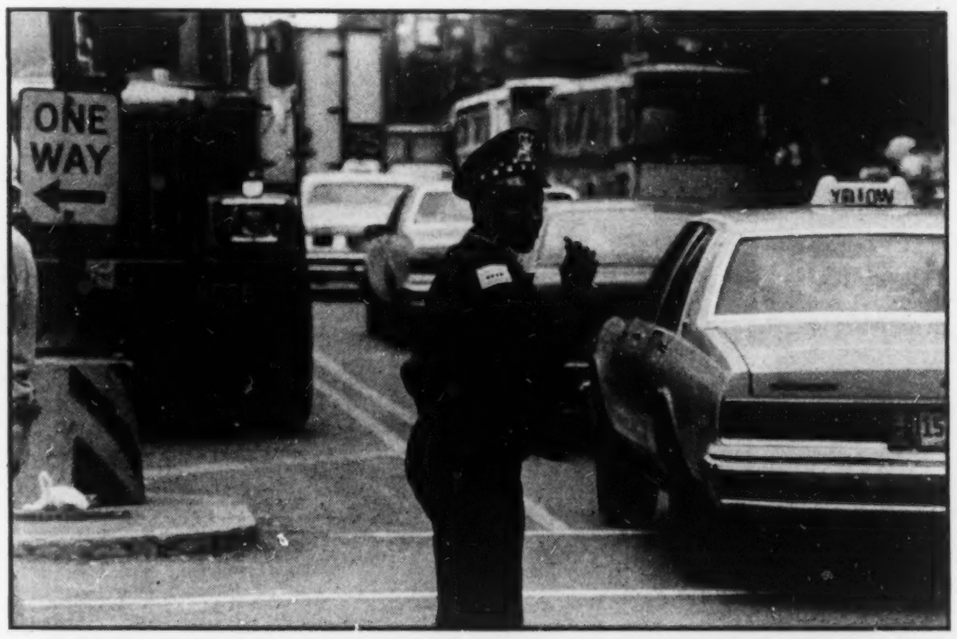
Chicago health care case promises to be first of many

By Trudy Ring

CHICAGO — Many retired Chicago city employees will pay more for health insurance under a plan approved in Cook County Circuit Court.

The plan settles a dispute between Chicago's four pension funds and the city over retiree health care coverage.

A group of beneficiaries, however, has appealed the settlement to the Illinois Appellate Court, and plans to ask that court to enjoin the city from changing the terms of any retiree's coverage from where it stood at the later of that person's retirement or the enactment of legislation paving the way for the settlement.



Most Chicago municipal employees will be paying more for retiree health care under a settlement approved in court.

Retiree health care is a growing issue for public-sector employers, as it is for corporations, benefits professionals said.

"In the next few years, it's going to be a real high-priority item for most municipalities or governmental entities," said Bill Miner, an actuary with The Wyatt Co., Chicago. The Government Accounting Standards Board will follow the Financial Accounting Standards Board in requiring employers to recognize future retiree health costs, he said.

Some groups of retirees have been able to use their political clout to persuade municipal and state employers to assume a greater share of health costs, said John P. Mackin, senior vice president at Martin E. Segal Co., New York. For instance, 20 states pay the full cost, up from 16 in 1989, he said. Also, an increasing number of states and municipalities are correlating their payments to a retiree's years of service.

Mr. Mackin said politically savvy retiree groups will continue to lobby for employers to pay more toward health care. Mr.

Continued on page 33

Court appeal not saving Grace

ERISA violation conviction stands

By Joel Chernoff

NEW YORK — Once high-flying money manager Grace Capital Inc. had its wings clipped by a federal appeals court last month, as the court found the manager violated the investment guidelines set by a former client.

The 2nd U.S. Circuit Court of Appeals knocked down almost every argument raised by New York-based Grace Capital and its president, H. David Grace. Nevertheless, the court sent the case back to a federal district court to rule on a narrow issue of whether preferred stock counts toward the 50% equity ceiling set by trustees of the now-terminated Fur Manufacturing Industry Retirement Fund, New York.

While the appeals court vacated the $1.5 million judgment set by the lower court, it appears the award will not be significantly diminished, considering preferred stock comprised only 4% of the fur trade's pension fund. Equity holdings averaged 69% of the portfolio during a 16-month period. Mr. Grace and his attorney did not return phone calls.

Grace Capital was once a highly touted boutique. Started in 1974, it developed a performance record that placed it in the top 2% of equity funds in A.G. Becker's (now SEI Corp.'s) equity fund universe for the seven years ended Dec. 31, 1981, with a compound annualized return of 21.7%. It ranked in the top 1% of the Becker equity universe in 1981, with a 28.5% return.

Assets under management soared, shooting to $100 million by early 1982 from $25 million just two years before. By January 1984, total assets had jumped to $173 million, of which $134 million were tax-exempt. Pension fund clients included the Minneapolis Employees Retirement Fund and the Daytona Beach (Fla.) Police & Fire Pension Fund.

But one year later total assets under management had plunged by $100 million. Tax-exempt assets had dropped to $32 million, and tax-exempt clients had fallen to 30 from 86 the year before, according to reports in *Pensions & Investment Age*.

By the end of 1986, total assets

Continued on page 33

TPF&C finds room to grow

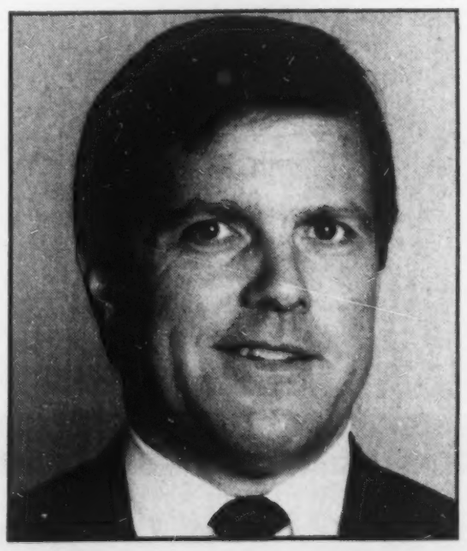
By Hillary Durgin

Launching a full-line asset consulting group when your competitors are 15 and 20 years ahead of you is no easy assignment. In 1987, when TPF&C approached 15-year veteran Roger C. Bransford, the firm tasked him to write the script for an operation that would rival those of its competitors.

While TPF&C's marquee name and roster of Fortune 500 clients effectively distances such a start-up from the realm of trench warfare, these apparent benefits also pose particular challenges.

"Can anyone really create a new Frank Russell Co.?" queried William H.S. Preece Jr., who served for eight months as TPF&C's Chicago regional director of asset consulting. "Does that business have that much growth in it? My answer is no. The mainline business has been elusive for anyone that's come in late." Mr. Preece joined TPF&C after serving as director-corporate finance at Kraft Inc., Northbrook, Ill., and left the firm on good terms in May to become assistant treasurer at Motorola Inc., Schaumburg, Ill.

But for Mr. Bransford, the debut of TPF&C's new business line is perfectly timed.



Roger Bransford has guided his team over pitfalls of the asset consulting business.

"Almost the universal comment was, 'Aren't you really late?' " Mr. Bransford remarked. "We're not late; we're right on time."

He said his firm will be able to capitalize on niche opportunities in the growing global business arena and the insurance industry. Also, because his firm is new, it can use the most up-to-date technology instead of being locked into an older system.

Two years after TPF&C decided to expand its asset/liability forecasting capability into a full-line asset consulting practice, Mr. Bransford appears to have guided his newly assembled team over any initial hurdles. He has brought on a domestic staff of 29 full-time asset consultants who are working closely in four regional offices with TPF&C's field consultants. Three more domestic offices are planned.

Mr. Bransford's team has provided asset consulting services to approximately 200 clients, vs. 30

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